Commerce Bancshares, Inc.
Compliance Department
922 Walnut Street; Mail Stop TB 12-1
Kansas City, MO 64106

March 28, 2005

Docket Number: R-1217

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Via e-mail:
regs.comments@federalreserve.gov

Dear Ms. Johnson,

Commerce Bancshares, Inc. is a registered bank holding company with total assets of $14.3 billion at December 31, 2004, and four bank subsidiaries. Three of these banks are full-service banks, with approximately 190 branch locations in Missouri, Illinois, and Kansas. The other bank is a limited-purpose bank, with one office in Omaha, Nebraska. All of the banks are national banks.

The board has requested comments on specific issues relating to Regulation Z's open-end credit rules. Our responses are listed by Question numbers, as set forth in the advanced notice of proposed rulemaking. In general, we support the attempt to update the regulation, but remind the Board that even good and necessary regulatory changes are extremely expensive for lenders to implement. We recommend that changes to this regulation be approached with caution.

Scope Of Review

Q1. It makes sense to review Regulation Z in stages; however, the Board will need to take care to ensure that any changes are consistent where possible, to avoid additional complexity.

Format Of Disclosures

<u>Account Opening Disclosures</u>

Q2. Formatting guidance should be given in the form of commentary or models, and not regulatory requirements. We strongly oppose minimum type-size requirements. Any requirements that the Board finds necessary should be set in relation to the size of type used for other information in the disclosure, rather than by mandating any particular type-size.

Q3. Any formatting guidance should be provided as commentary or models, and not as regulatory requirement.

<u>Periodic Statements</u>

Q4. If format rules are proposed, we recommend clearly labeling the actual due date, the amount due, and the address to which payment should be sent on the front of the statement. Specific formatting guidance should be given as commentary or models, and not as regulatory requirements.

Q5. Yes, the grouping of fees, however they are labeled, would be an effective way of presenting the cost of credit.

Q6. Disclosures such as fees, rates, etc., should be easy to find and easy to read, but specific formatting tools or other navigational aids should not be mandatory. Any guidance that the Board finds necessary should be placed in the models or commentary.

<u>The Schumer Box</u>

Q7. The Schumer box is effective as currently designed. However, the 18-point type-size for the APR for purchases is ridiculously large. The Board should consider a more reasonable requirement, or set the requirement in relation to the type-size used for the other information. For example, require a type-size at least 2 point sizes larger than that used for the other disclosures in the Schumer box.

Q8. Both balance transfer fees and cash advance fees should be required to be included in the Schumer box. In addition, late-payment fees and over-the-limit fees should also be required to be included in the Schumer box. This encompasses all those items listed in Section 226.5a(b)(8) through (11), which may currently be disclosed inside or outside the box under Section 226.5a(a)(2)(ii).

Subsequent Disclosures

Q9. We do not support required formatting or navigational tools to tie subsequent disclosures back to account-opening disclosures. Most customers do not retain copies of the account-opening disclosures, so we feel that this would be wasted effort. However, it is important that the same terminology be used in both types of disclosure to avoid any confusion and to accommodate customers that do retain copies.

Content Of Disclosures

Classifying and Labeling Fees as “Finance Charges” and “Other Charges”

Q13. No changes to the definitions of finance charges or other charges are recommended.

Q14. Fees and changes to fees are already required to be disclosed in account opening disclosures and subsequent disclosures.

Q16. The Board describes a suggestion to classify fees as finance charges only if payment of the fee is required to obtain credit. The determination of whether a fee is “optional” would be unnecessarily complex if a lender must consider other credit plans a consumer may have been offered. Such a rule would not result in useful disclosures for consumers, but would make comparing the products of different lenders impossible. Each product should be considered separately, in terms of fees and charges, so that a consumer can compare similar products offered by different lenders.

Q20. The classification of fees as finance charges should be as consistent as practicable for open-end and closed-end loans.

Over-The-Credit-Limit Fees

Q22. We charge these fees only when an account is over limit at the end of the billing cycle. As stated in Q8, we believe that over-the-limit fees should be required to be included in the Schumer box, along with fees for balance transfers, cash advances, and late-payment.

Effective or Historical APR on Periodic Statements

Q23. There have been significant changes in the market and in the sophistication of consumers since the adoption of TILA. However, consumers generally do not understand the historical APR on their periodic statements. While we are not aware of any data on how disclosure of the historical APR affects consumer behavior, in our own experience as consumers, we believe that people are more likely to use the card that explains their rate, if that rate is competitive.

We believe it is useful to consumers to include a breakdown of transaction charges in the historical APR. This information provides the “big picture” and helps consumers understand where their money has gone in the past, and how best to use their credit products in the future.

Q24. A better description of the effective APR might be useful, but we do not believe it would be helpful to provide the actual calculation.

Q25. Consumers would benefit from a disclosure of the total dollar amount of fees by type. Penalty rates should be included in this disclosure.

The idea of a cumulative year-to-date total of fees is flawed. A cumulative total of fees would only create customer confusion and result in disputes over fees assessed in a previous month.

Disclosures About Rate Changes.

Q26. The current 15-day notice requirement is adequate.

Q27. The rate is disclosed on the periodic statement. The current disclosure rules are adequate.

Balance Calculation Methods
Q29. Consumers have difficulty understanding the different balance calculations. Examples of formulas could be included in the disclosure documents where the balance calculation method is defined. While the formulas might be helpful to some consumers, many would be further confused by the complexity of the formulas.

Q30. Brief explanations of balance calculation methods on statements may be helpful; however, a reference to another location is adequate. As long as the explanations are available, the Board should allow the lender to decide where they are located.

Minimum Payments
Q31. We are not in favor of the minimum-payment disclosure options proposed.

The periodic statement disclosure of the amortization period assuming minimum payments is not practicable because that information is not available. The assumption of minimum payment (or any other assumption) does not provide accurate information to the consumer about their specific situation, and so would not be helpful.

An account-opening disclosure assuming an initial purchase equal to the credit limit and ongoing minimum payments is a hypothetical situation that does not reflect the way most people use an account, and so does not provide helpful information to the consumer. We do not believe it is possible to provide a minimum-payment example on the account-opening disclosures that would be useful to most consumers.

Consumers electing to make the minimum payment should know that they are choosing to carry a balance on which interest will accrue. If the Board decides to mandate information about the minimum payment, we recommend a simple disclosure that states: "If you pay only the minimum payment, the remaining balance will be subject to interest." Such a disclosure could be used in account-opening and periodic disclosures.

Q32. No, information about amortization periods in a hypothetical minimum-payment situation is not readily available. Our accounting system would have to be replaced or re-programmed in order to provide this information on statements or upon request. This would be an extremely costly undertaking, and would be of little value to the consumer.

Q33. Yes, data is available on the percentage of consumer credit cardholders that regularly make only the minimum payment.

Payment Allocation
Q34. The most common payment allocation method that we are aware of is as follows: Finance charges and fees are generally paid off first, then any remaining payment is applied to balances created by purchases, cash advances, and balance transfers. Issuers typically apply payments to balances with lower rates first.

Q35. Payment allocation methods are disclosed only in general terms.

Q36. Too much detail might be confusing to consumers, especially if they have created balances under more than one promotional rate offer. However, issuers should describe their payment allocation method in more specific terms. At a minimum, a disclosure that payments are applied first to balances with lower rates would be useful.

Tolerances

Q37. It is not clear to us which disclosures the Board is contemplating in this discussion of tolerances for finance charges and fees. Clearly, periodic statements use actual finance charge information and must be accurate.

Other Questions

Q40. Yes, we consider the information currently required for applications and solicitations to be adequate and effective for those customers that actually read the information to use in deciding whether or not to apply for an account.

Q41. There are no classes of consumer-purpose open-end credit that should be exempted from the requirements of Regulation Z. The Board should not address exemption issues in this phase of the review.

Q42. We oppose any exemption based on a borrower's income and/or assets. The current exemptions are appropriate.

Substantive Protections

General

Q43. Overall, we believe the existing rules are adequate.

Accessing Credit Card Accounts

Q44. We currently offer "ghost" accounts, which do not involve physical cards, to our commercial customers only. We issue "card verification values" (C.V.V.), the 4-digit number that usually appears on the back of a card. The merchant in mail, telephone, or Internet transactions often requests the C.V.V. to verify that the caller has access to the physical card. In the case of a ghost account, the C.V.V. acts as a sort of PIN to verify that the purchaser is the owner of the account, and the C.V.V. must be protected in the same way as a PIN. While we do not currently offer ghost accounts to consumers, it makes sense that dispute resolution procedures would mirror those used for physical card accounts.

Convenience Checks

Q45. The definition of "credit card" should not be changed to include convenience checks, but stronger guidance should be given on how to handle disputes related to them. From an operational standpoint, it is impossible to handle convenience check disputes in the same way as credit card disputes. Transaction authorizations and charge back procedures do not exist for or apply to convenience checks, so the same consumer protections cannot be implemented for these one-time access devices.

Prompt Crediting of Payments

Q47. Cut-off hours are generally in the early afternoon, allowing payments received to be processed on that business day. Timeframes are based on the volume of payments anticipated, and the staff required to process the payments.

Q48. Payment cut-offs differ based on payment method. For example, our electronic payment cut-off is 4 hours later than the paper-payment cut-off time. Each payment method has different posting methods and staffing requirements.

Q49. Disputes over prompt crediting of payments generally occur when a customer makes a payment at a branch or ATM. These payments must be forwarded to the proper location and so take longer to process. Disclosures and disclosure requirements might be improved by explaining that payments made at "other locations" – specifically including bank branches and ATMs – will take longer to process.

Q50. If a customer has been instructed to make payments to a third party, then any payments received by that third-party processor should be treated as if received by the creditor.

Q51. We strongly oppose any requirement to credit payments as of the date received, regardless of the time. Such a requirement would be an operational predicament. Cut-off times are necessary to allow payments to be processed on business days at times when staff is available to process the payments.

Additional Issues

Q55. *Deleting obsolete rules or guidance.* Section 226.12(c)(3)(ii) addresses the limitations on a cardholder's right to assert claims against the card issuer. The disputed transaction must have occurred in the same state, or if not in the same state, then within 100 miles from the cardholder's current address. We believe this limitation should be deleted, or at least revisited, as it is no longer relevant given the manner in which consumers use credit cards.

Q58. *Reviewing other aspects of Regulation Z.* There are no definitions or rules of construction that should be included in this stage of the review. The classifications of exempt transactions do not need to be updated at this time. The $25,000 ceiling on loans subject to the Regulation remains appropriate for unsecured credit. The Board might consider if that ceiling is appropriate for secured loans, given the current prices on automobiles, for example, but that issue would better be addressed in a later stage of the review. As stated in our answer to Q41, we do not believe that there are any classes of consumer-purpose open-end credit that should be exempted from the requirements of Regulation Z.

Thank you for providing the opportunity to comment.

Sincerely,

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